

**STATE OF INDIANA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS**

ORDER OF INTEGRATION

Re: Application of Moore Engineering & Prod. Co., Inc.) Case No.: DOG-7-2014
For the integration of oil and gas interests owned by Seaboard)
Systems Railroad (CSX Transportation, Inc.) into the Princeton)
South Waterflood Pooled Unit located in Part of the NW/4 of)
Section 19, Township 2 South, Range 10 West, Gibson County,
Indiana

As provided in Indiana Code 14-37-3-16, an informal hearing was held via teleconference in this matter on Thursday, November 20, 2014, beginning at 11:30 A.M., Eastern Time, before the Indiana Department of Natural Resources (IDNR), Division of Oil and Gas (Division), at the Indianapolis Office of the Division located at 402 West Washington Street, Room W293, in Indianapolis, IN 46204. The purpose of the informal hearing was to consider the Petition for Integration of Interests (Application) for the above described parcels specifically identified in a petition dated September 24, 2014, prepared by William C. Illingworth, Basin Law Group LLP, on behalf of Moore Engineering & Prod. Co., Inc., hereinafter referred to as "Applicant".

Having reviewed the entire record in this matter, and being duly advised, the Director of the Division (Director) makes the following Findings of Fact, Conclusions of Law and Order of Integration in this matter:

FINDINGS OF FACT

1. Applicant Moore Engineering & Prod. Co., Inc. is an Indiana corporation whose principal address is 2104 Lincoln Avenue, Evansville, IN 47714.
2. Applicant has represented that it is the operator of certain oil and gas leases covering the following properties located in Gibson County, Indiana:
 - a. Tract 1 - Oil and Gas Lease dated December 30, 1983, from Helen Key Langston as Lessor, to Lester D. Moore, as Lessee, recorded in Miscellaneous Drawer 5, Card Number 3163, in the Office of the Recorder of Gibson County, Indiana.
 - b. Tract 2 - Oil and Gas Lease dated December 13, 1983, from R. S. Morrow, as Lessor, to Lester D. Moore, as Lessee, recorded in Miscellaneous Drawer 5, Card Number 3159, in the Office of the Recorder of Gibson County, Indiana.
 - c. Tract 2 and 3 - Oil and Gas Lease dated March 15, 1984, from The Seaboard System Railroad, Lessor, to Lester D. Moore, as Lessee, recorded in Miscellaneous Drawer 5, Card Number 3156, in the Office of the Recorder of Gibson County, Indiana.
 - d. Tract 3 - Oil and Gas Lease dated January 18, 1984, from P. J. Farms, Inc., Lessor, to Lester D. Moore, as Lessee, recorded in Miscellaneous Drawer 5, Card Number 3161, in the Office of the Recorder of Gibson County, Indiana.
3. Applicant is currently operating certain wells on the lands which are the subject of the Application and has produced those wells by primary production. Applicant believes that such primary production has resulted in the delineation of a pool suitable for secondary recovery within the meaning of IC 14-37-9-1.

4. The Division finds that the lands subject to the Application are suitable for secondary recovery from the Renault Sand.
5. Applicant has proposed the voluntary establishment of a waterflood unit agreement covering the secondary recovery pool to be known as the Princeton South Waterflood Unit, hereinafter "Unit".
6. Applicant has been successful in securing agreement to the pooling of interests from all working interest owners, royalty interest owners and overriding royalty owners of the oil and gas interests, with the exception of the following:

Name	Interest
Seaboard Systems Railroad	0.010628 RI in Tract 2
c/o CSX Transportation, Inc.	0.012055 RI in Tract 3
500 Water Street	
Jacksonville, FL 32202-4423	

7. The proposed Pooling Agreement for the Princeton South Waterflood Unit would treat all royalty, working interest and overriding royalty interest owners fairly and equitably with each such interest sharing in the total production from the pooled unit in proportion to which their interest bears to the entirety of the unit. Proposed participation factors are as follows:

Tract 1, located in the East Half of the Northwest Quarter of Section 19, Township 2 South, Range 10 West, Gibson County, Indiana.	49.5331%
Tract 2, located in the Southwest Quarter of the Northwest Quarter of Section 19, Township 2 South, Range 10 West, in Gibson County, Indiana.	34.2993%
Tract 3, located in the East Half of the Northwest Quarter of the Northwest Quarter of Section 19, Township 2 South, Range 10 West, Gibson County, Indiana	16.1676%

8. The Applicant represents that it utilized generally accepted petroleum engineering principles when it developed the proposed tract participation factors described in Finding 7 regarding the allocation of production from secondary recovery production operations to be conducted within the Unit. The specific factors utilized for each of the lease areas and their respective weighting factors were found in Exhibit F of the Application and further described as follows:
 - a. Number of flood useable wells (Productive Renault sand wells) – 10%
 - b. Current production (total produced barrels from Jan. 2008 to Dec. 2012) – 20%
 - c. Cumulative production (total production through December, 2012) – 20%
 - d. Renault sand reservoir pore volume (in acre-feet) – 50%
9. Except for the interests of Seaboard Systems Railroad, all other owners of oil and gas interests within the proposed pooled unit have voluntarily agreed to integrate their interests in the production that will result from secondary recovery operations within the unit according to tract participation factors proposed by the Applicant.
10. IC 14-37-9-1(b) requires that, where owners of separate tracts within a pool or part of a pool suitable for secondary recovery methods do not agree to integrate their interests, the IDNR shall require the owners to integrate their interest in order to prevent waste or the drilling of unnecessary wells and to develop the land as a drilling unit.

11. IC 14-37-9-2 requires that an order for integration must be based upon reasonable terms that give the owner of each tract an equitable share of oil and natural gas in the unit or pool.
12. The Petition filed in this matter by the Applicant seeks, pursuant to IC 14-37-9, the issuance of an integration order whereby the interests of all owners of separate tracts within the proposed waterflood unit are integrated and the combined leases developed as a consolidated production unit.
13. The Applicant attached the following documents to its Petition:

Exhibit A	Copy of Oil and Gas Leases in the name of Lester D. Moore
Exhibit B	Ad Valorem Statement from Countrymark Refining and Logistics, LLC (Tract 1).
Exhibit C	Ad Valorem Statements from Countrymark Refining and Logistics, LLC (Tract 2)
Exhibit D	Ad Valorem Statements from Countrymark Refining and Logistics, LLC (Tract 3)
Exhibit E	Sample of proposed Unit Pooling Agreement which was presented to all owners of interest in the proposed Princeton South Pooled Unit.
Exhibit F	Participation factors for each tract in the Princeton South Pooled Unit
Exhibit G	Map of the proposed Princeton South Pooled Unit
14. On October 17, 2014, notice of the informal hearing on this matter was sent to Seaboard Systems Railroad via first class mail to the address indicated in Finding #6. Will Illingworth, counsel for the Applicant, was emailed a copy of the notice on the same date.
15. The following persons were present at or participated in the informal hearing via teleconference held in Indianapolis on November 20, 2014:


<u>Person</u>	<u>Representing</u>
Jim AmRhein	Indiana DNR, Division of Oil & Gas
Herschel McDivitt	Indiana DNR, Division of Oil & Gas
Will Illingworth, Basin Law Group, LLP	Moore Engineering & Prod. Co., Inc.
Ryan Bunnage	Moore Engineering & Prod. Co., Inc.
16. As of the date of this Order, the Division of Oil and Gas has received no response from Seaboard Systems Railroad or anyone authorized on its behalf.

CONCLUSIONS OF LAW AND ORDER OF INTEGRATION

1. IC 14-37-9 and any rules promulgated there under apply and are pertinent to the subject matter of the Application filed herein.
2. There has been full compliance with all notice requirements provided by law, and all interested parties have been afforded an opportunity to be heard.
3. The IDNR and the Division have jurisdiction to hear this matter and authority, as delegated by the Natural Resources Commission, to order the integration of interests in accordance with IC 14-37-9-1(b).
4. The Petition, herein referenced, contains the elements required by law.

5. The royalty interests held by Seaboard Systems Railroad in lands within the Princeton South Pooled Unit described herein in Finding #7, located in the Section 19, Township 2 South, Range 10 West, Gibson County, Indiana, are hereby ordered to be integrated into the Princeton South Pooled Unit as proposed by Applicant.
6. It is reasonable, fair, and equitable, as required by IC 14-37-9-2, that such division of interest in the Princeton South Pooled Unit be accomplished so that unit operations may be conducted as if the unit area had been included in a single lease executed by all owners of oil and gas interests within said unit.
7. As provided in IC 14-37-9-2, the portion of the production allocated to the owner of any tract within the Princeton South Pooled Unit shall be considered as if produced from a well drilled on that tract.
8. This order is a final administrative action of the IDNR and, as such, is subject to administrative review under IC 4-21.5-3-7 and may be placed of record by the Applicant in the appropriate public record of Gibson County, Indiana.

November 24, 2014
Dated


Herschel L. McDivitt, Director
Division of Oil and Gas

**DIVISION OF OIL AND GAS
DEPARTMENT OF NATURAL RESOURCES**

**NOTICE OF ORDER OF INTEGRATION and
NOTICE OF RIGHT TO APPEAL**


Interested persons are hereby notified that on November 24, 2014, the Indiana Department of Natural Resources, through the Director of the Division of Oil and Gas, issued an Order of Integration with respect to certain oil and gas drilling interests under Cause No. DOG-07-2014. The Order of Integration is based on a Petition for Integration of Interests previously filed by the Applicant, Moore Engineering & Prod. Co., Inc. and on an Informal Hearing held in this matter on November 20, 2014, in Indianapolis, Indiana to consider the request for the integration of royalty interests for oil and gas underlying certain properties located in Section 19, Township 2 South, Range 10 West, Gibson County, Indiana held by Seaboard Systems Railroad, c/o CSX Transportation, Inc., 500 Water Street, Jacksonville, FL, 32202-4423.

A copy of the Order of Integration is available from the Division of Oil and Gas website at <http://www.in.gov/dnr/dnroil/3790.htm>.

The terms of the Order of Integration are subject to appeal and review under IC 4-21.5-3-7 in a hearing before an Administrative Law Judge. In order to qualify for administrative review, a person may file a request for review in writing stating facts that demonstrate the petitioner is:

- (A) a person to whom the order is specifically directed;
- (B) aggrieved or adversely affected by the order; or
- (C) entitled to review under any law.

In order to be timely, any petition for administrative review must be filed with the Division of Hearings, Natural Resources Commission, Division of Hearings, Indiana Government Center North, 100 North Senate Avenue, Room N501, Indianapolis, IN, 46204-2200 within eighteen (18) days after the date of this notice. If no petition for administrative review is filed within the stated time limit, all terms and conditions contained in the Order of Integration will become final and binding.

<u>November 24, 2014</u> Dated	 Herschel L. McDivitt, Director Division of Oil and Gas
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